

THE OFFICE OF REGULATORY STAFF

DIRECT TESTIMONY AND EXHIBITS

OF

DANIEL F. SULLIVAN

JUNE 24, 2010



DOCKET NO. 2010-4-G

**ANNUAL REVIEW OF PURCHASED GAS
ADJUSTMENT AND GAS PURCHASING
POLICIES OF PIEDMONT NATURAL GAS
COMPANY, INC.**

June 24, 2010

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(1) A true-up for differences between billed and filed rates is appropriate and necessary to assure that Piedmont's customers pay no more than Piedmont's actual cost of gas.

(2) A true-up of demand charges for changes in sales volumes is appropriate and necessary to assure that Piedmont's customers pay no more than Piedmont's actual cost of gas.

(3) The Company is to maintain an account reflecting its gas costs each month, the amount of gas costs recovered each month, and amounts deferred from month to month. The Company is also required to file, with the Commission, a report on a monthly basis showing the status of this deferred account.

Additionally, with the issuance of Order No. 2002-223 dated March 26, 2002 in Docket No. 2001-410-G, the Company is required to file regular reports on the status of the hedging program and the results of its hedging activities.

Q. HAS ORS CONDUCTED THE COMMISSION REQUIRED EXAMINATION OF THE COMPANY'S DEFERRED ACCOUNT?

A. Yes. ORS has examined the activities included in deferred account #253.04. In addition, ORS has examined the Company's gas storage inventory accounts and account #191.01, Deferred Account Hedging Program, for the period April 2009 through March 2010.

Q. PLEASE EXPLAIN AUDIT EXHIBIT DFS-1 AND WHAT IS REFLECTED IN THAT EXHIBIT.

1 **A.** Audit Exhibit DFS-1 presents, for each month of the period under
2 examination, the components which comprise the Company's over/under collection
3 in deferred account #253.04. These components are:

4 **Commodity True-Up** - These amounts represent the difference in the Company's
5 actual gas costs on a monthly basis as compared to the benchmark cost of gas
6 included in the Company's Gas Cost Recovery Mechanism ("GCRM") filings
7 during the period. The Company's benchmark cost of gas at the beginning of the
8 period was \$6.50, established as a result of the Company filing GCRM #126,
9 effective the first billing cycle in February 2009. The Company's benchmark cost
10 of gas at the end of the period was \$5.85, established as a result of the Company
11 filing GCRM #127, effective the first billing cycle in March 2010. For the months
12 of April through September 2009, on a Carolinas System basis, actual gas costs
13 were computed and compared to the benchmark cost and any difference was
14 allocated to South Carolina operations based on the current month's sales
15 percentage. Beginning October 1, 2009, in accordance with Order No. 2010-250
16 dated March 30, 2010, the Company began including unbilled volumes in its
17 commodity true-up calculations in order to achieve a better matching of gas cost
18 collections versus actual gas costs in the months they occur. South Carolina's
19 portion of commodity true-up for the period decreased the under-collection by
20 \$18,354,245.

21 **Demand True-Up** - These amounts represent the over or under-collection of
22 demand charges incurred by the Company as compared to demand charges billed
23 and collected from customers. Beginning October 1, 2009, in accordance with

1 Order No. 2010-250 dated March 30, 2010, the Company began including unbilled
2 volumes in its demand true-up calculations in order to achieve a better matching of
3 gas cost collections versus actual gas costs in the months they occur. The design
4 day factor for demand allocation is 16.01%, effective November 1, 2008, due to
5 North Carolina Public Service Commission Docket No. G-9 Sub 550, dated
6 October 24, 2008. The methodology used to calculate the design day factor for
7 demand allocation of 16.01% is in compliance with the Public Service Commission
8 of South Carolina Docket No. 2003-251-G, Order No. 2004-501, dated October 15,
9 2004. Demand true-up for the period decreased the under-collection by \$586,596.

10 **Negotiated Losses** - In competition with alternate fuels, the Company's GCRM
11 allows it to maintain its industrial load by selling gas at less than the approved
12 tariff, resulting in margin losses. Negotiated losses for the period increased the
13 under-collection by \$1,380,175.

14 **Secondary Market Sharing** - Effective with rates approved in Docket No. 2002-
15 63-G, Order No. 2002-761 dated November 1, 2002, the Company now credits 75%
16 of the margin from off-system sales and capacity release transactions to deferred
17 account #253.04. The remaining 25% is retained by the company. The same Order
18 also provided that capacity release credits and off-system sales would be allocated
19 to South Carolina using the same design day methodology approved for fixed
20 demand costs. Shared margins and capacity release credits for the period reduced
21 the under-collection by \$5,014,711. It should be noted that in compliance with
22 Order No. 95-1461 dated August 22, 1995, issued in Docket No. 95-160-G, the
23 Company is properly reporting capacity release activity. These capacity release

1 credits totaling \$3,643,581 are included in the total of \$5,014,711 listed above for
2 secondary market sharing.

3 **Weather Normalization** - In compliance with Order No. 95-1649 dated November
4 7, 1995, issued in Docket No. 95-715-G, the Company began recording in deferred
5 account #253.04 weather normalization effective for the winter heating season of
6 November through March. The weather normalization adjustment is designed to
7 increase or decrease the margin component of the rate based on a comparison of
8 actual weather conditions, during the period, to normal weather conditions.
9 Weather normalization adjustments for the examination period decreased the under-
10 collection by \$3,947,243 as a result of colder than normal weather for the 2009-
11 2010 heating season.

12 **Lost and Unaccounted For ("LAUF")** - This annual line loss adjustment reflects a
13 true-up of calculated "unaccounted for" and "company use" fuels charged to the
14 customers as compared with the actual losses experienced during the period. This
15 was an annual adjustment required by the Company's GCRM. Beginning October
16 1, 2009, in accordance with Order No. 2010-250 dated March 30, 2010, the
17 company employed a new LAUF methodology. Applying this new methodology to
18 Piedmont's gas cost deferred account on a monthly basis results in a more accurate
19 LAUF adjustment and also eliminates the need for an annual LAUF true-up because
20 the quantities calculated in its monthly reports reflect its actual LAUF experience.
21 The calculation of the 2009 LAUF adjustment reduced the under-collection by
22 \$346,071.

1 **Uncollectible Gas Cost Recovery** - In Docket No. 2006-4-G, Order No. 2006-527
2 dated October 11, 2006, the Commission approved the Company's request to
3 remove uncollectible gas cost expense from its cost of service and authorized the
4 recovery of these costs through the Company's gas cost deferred account #253.04.
5 Under this revised methodology, the commodity cost of gas portion of uncollectible
6 accounts is now a component of deferred account #253.04. The balance of the
7 uncollectible accounts expensed, including the company's margin, will be
8 recovered through their RSA filing. The uncollectible gas cost adjustment
9 increased the under-collection during the period by \$589,718.

10 **Supplier Refunds** - The Company received supplier refunds totaling \$502,482 for
11 the twelve months ended March 31, 2010. South Carolina's allocation of these
12 refunds results in a decrease to the under-collection of \$77,455.

13 **Hedging Activity Transfer** - In Docket No. 2006-4-G, Order No. 2006-527 dated
14 October 11, 2006, the Commission authorized the Company to transfer the balance
15 of its cumulative hedging gains or losses to deferred account #253.04 on a monthly
16 basis, effective November 1, 2006. Transfer of the monthly hedging gains and
17 losses to deferred account #253.04 for the period April 2009 through March 2010
18 resulted in an increase to the under-collection of \$5,435,784.

19 **Other Adjustments** - Other adjustments posted to deferred account #253.04
20 during the review period result in a decrease to the under-collection of \$3,180,463.
21 The majority of this decrease is due to the change in LAUF methodology and the
22 inclusion of unbilled revenue as discussed in Company witness Robert L.
23 Thornton's testimony on page 5.

1 **Accrued Interest** - In Docket No. 2006-4-G, Order No. 2006-527 the Commission
2 ordered that, effective November 1, 2006, the interest rate applicable to balances in
3 Piedmont's account #253.04 be fixed at 7.00%. The Company used the
4 Commission ordered rate of 7.00% in calculating accrued interest on deferred
5 account #253.04 from April through August 2009, and the result is an increase in
6 the under-collection of \$764,471. Effective September 1, 2009, Commission Order
7 No. 2009-579 dated August 19, 2009 ordered the interest rate to calculate under-
8 and over-collection balances to be the rate of interest as of the first day of each
9 month for 10-year United States Government Treasury Bills, plus an all-in spread
10 of 65 basis points (.65 percentage points). It also ordered that interest not be
11 accrued on under- and over-collection balances which exceed \$20 million in the
12 deferred account. The result is an increase to the under-collection of \$377,156 for
13 the months of September 2009 through March 2010. Total accrued interest for the
14 period April 2009 through March 2010 resulted in an increase to the under-
15 collection of \$1,141,627.

16 **Q. WHAT IS INCLUDED IN AUDIT EXHIBIT DFS-2, STORAGE**
17 **INVENTORY ACTIVITY?**

18 **A.** During the PGA, the Company provided ORS with detailed inventory
19 calculations of its underground and liquefied natural gas (LNG) storage facilities.
20 ORS accumulated the various inventory levels by storage location in total, and
21 includes a summary of them in Audit Exhibit DFS-2, for Commission
22 consideration.

1 The Company has contracted with six underground storage facilities. Four
2 of these facilities are on the Transco System, including General Storage Service and
3 General Storage Service - Dominion located in Pennsylvania, Washington Storage
4 Service located in Louisiana, and Eminence Storage Service located in Mississippi.
5 The fifth and sixth underground storage facilities are on the Columbia Gas
6 Transmission System. The first is Firm Storage Service, which is owned by
7 Columbia Gas Transmission Corporation and operated by Columbia Gas Storage,
8 with facilities in Pennsylvania, Virginia, and West Virginia. The second is Hardy
9 Storage Company, located in West Virginia, which is jointly owned by Columbia
10 Gas Transmission Corporation and Piedmont. Audit Exhibit DFS-2, "Total
11 Underground" section, details the inventory activities of these underground
12 facilities in total. The inventory located in the six underground facilities at the
13 beginning of the review period totaled 8,076,680 dekatherms at a total cost of
14 \$66,689,658 or a weighted average cost of \$8.2571 per dekatherm. The net
15 inventory decreased during the period resulting in an ending inventory balance for
16 the underground facilities of 7,837,174 dekatherms at a total cost of \$44,701,620 or
17 a weighted average cost per dekatherm of \$5.7038. During its examination, ORS
18 obtained verification from the storage facility operators of the volumes stored in
19 each of these facilities at the close of the review period.

20 Audit Exhibit DFS-2 also contains a section called "Total LNG" which is a
21 summary of the various LNG inventories maintained by the Company, including
22 Pine Needle. Pine Needle is an LNG facility located in Guilford County, North
23 Carolina and is jointly owned by Piedmont, Transco and several other utilities

1 and/or investors. Inventory is also stored at the Company's LNG facilities located
2 near Charlotte, North Carolina and at LNG-NCNG located at Four Oaks, North
3 Carolina. Piedmont's records indicated LNG inventory located in these facilities at
4 the beginning of the period totaled 1,580,031 dekatherms at a total cost of
5 \$13,644,840, or a weighted average cost of \$8.6358 per dekatherm. The net
6 inventory increased during the period resulting in an ending LNG inventory balance
7 for these three facilities of 2,309,537 dekatherms at a total cost of \$14,737,423 or a
8 weighted average cost per dekatherm of \$6.3811. During its examination, ORS
9 verified injections and withdrawals to the daily storage activity worksheets for each
10 facility and the calculation of ending inventory balances.

11 **Q. WHAT IS INCLUDED ON AUDIT EXHIBIT DFS-3, RISK**
12 **MANAGEMENT-HEDGING PROGRAM?**

13 **A.** Audit Exhibit DFS-3 details the results of the Company's hedging program
14 for the period. Order No. 2002-223 dated March 26, 2002 approved the Company's
15 experimental natural gas hedging program.

16 In Docket No. 2006-4-G, Order No. 2006-527, the Commission authorized
17 the Company, effective November 1, 2006, to transfer the balance of its cumulative
18 hedging gains or losses to account #253.04 on a monthly basis. Monthly net
19 hedging gains or losses before interest were transferred to deferred account #253.04
20 and included as part of the interest calculation on deferred account #253.04. Total
21 hedging activity for the review period resulted in an increase in the under-collection
22 account of \$5,435,784.

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AUDIT EXHIBIT DFS-1

PIEDMONT NATURAL GAS COMPANY, INC.
ACCOUNT #253.04 ANALYSIS SUMMARY
FOR TWELVE MONTHS ENDED MARCH 31, 2010

Month	2009						2010						Total
	April	May	June	July	August	September	October	November	December	January	February	March	
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
Beginning Balance	25,556,246	26,239,577	24,077,240	26,108,570	27,355,975	29,749,534	26,633,161	27,498,064	24,956,706	18,751,092	12,276,191	6,437,810	
Commodity True-Up	(1,576,471)	(847,414)	(859,530)	(605,268)	(653,881)	(1,030,102)	(1,397,092)	(2,395,668)	(4,107,269)	(2,101,347)	(2,579,160)	(201,043)	(18,354,245)
Demand True-Up	(228,384)	794,840	1,108,080	1,204,716	1,217,046	1,177,238	1,101,317	461,771	(751,306)	(3,154,495)	(2,782,900)	(734,519)	(586,596)
Negotiated Losses	92,740	67,961	94,690	92,448	83,653	112,152	111,357	161,845	160,041	129,601	142,005	131,682	1,380,175
Secondary Market Sharing	(513,110)	(251,407)	(274,509)	(200,015)	(296,327)	(277,348)	(236,133)	(1,841,770)	(409,650)	(339,216)	(254,576)	(120,650)	(5,014,711)
Weather Normalization	308	50	26	397	(1,007)	3	0	(2,025)	148,672	(1,584,581)	(868,774)	(1,640,312)	(3,947,243)
Lost and Unaccounted For	0	0	0	0	0	(346,071)	0	0	0	0	0	0	(346,071)
SC Uncollectibles	81,899	179,271	106,902	128,686	81,554	37,640	9,098	(45,383)	(4,681)	(3,977)	3,609	15,100	589,718
Supplier Refunds	0	0	(1,651)	0	(59,679)	0	(15,877)	0	(209)	(39)	0	0	(77,455)
Hedging Activity Transfer	2,675,717	(2,251,969)	1,711,372	470,956	1,856,127	(2,855,868)	1,236,476	1,055,655	(1,315,945)	516,826	468,373	1,868,064	5,435,784
Other Adjustments	0	0	0	0	0	0	(11,576)	0	0	7,338	0	(3,176,225)	(3,180,463)
Ending Balance Before Interest	26,088,945	23,930,909	25,962,620	27,200,490	29,583,461	26,567,178	27,430,731	24,892,489	18,676,359	12,221,202	6,404,768	2,579,907	
Interest	150,632	146,331	145,950	155,485	166,073	65,983	67,333	64,217	74,733	54,989	33,042	16,859	1,141,627
Ending Balance	26,239,577	24,077,240	26,108,570	27,355,975	29,749,534	26,633,161	27,498,064	24,956,706	18,751,092	12,276,191	6,437,810	2,596,766	
Interest Rate	7.000%	7.000%	7.000%	7.000%	7.000%	3.959%	4.040%	3.853%	4.484%	4.261%	4.245%	4.487%	
Deferred Account #253.04 (Over)/Under Collection as of 3/31/10													\$2,596,766
													(1)

(1) - Variance from Exhibit (RLT_1) of \$4 due to rounding

PIEDMONT NATURAL GAS COMPANY, INC.
STORAGE INVENTORY ACTIVITY
FOR TWELVE MONTHS ENDED MARCH 31, 2010

	Total Underground					Total Underground					Total Underground				
	Injections					Withdrawals					Balance				
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Charge	DTs	Price	Amount		DTs	Amount	Wid. Cost		
	#	#	\$	\$	\$	\$	#	\$	\$		#	\$	\$		
Beg. Bal.															
Apr-08	1,752,722	(44,909)	3.7032	6,490,660	79,931	0	(603,959)	7.3552	(4,442,240)		8,076,680	66,689,658	8.2571		
May-08	2,945,828	(119,442)	3.4434	10,143,605	116,812	0	(439,061)	7.3063	(3,207,903)		9,180,534	68,818,009	7.4961		
Jun-08	2,702,361	(104,892)	3.5613	9,623,807	138,319	0	(76,532)	6.9869	(534,724)		11,567,859	75,870,523	6.5587		
Jul-08	2,013,969	(87,050)	3.9319	7,918,724	118,149	0	(186,956)	6.9294	(1,295,487)		14,088,796	85,097,925	6.0401		
Aug-08	1,491,709	(68,147)	3.3498	4,996,948	89,014	0	(569,344)	6.6025	(3,759,083)		15,828,759	91,839,311	5.8021		
Sep-08	1,118,972	(48,658)	2.8004	3,133,515	68,991	0	(260,810)	6.3706	(1,661,523)		16,682,977	93,166,190	5.5845		
Oct-08	833,042	(31,965)	3.6762	3,062,435	51,509	0	(604,582)	6.3747	(3,854,042)		17,492,481	94,707,173	5.4142		
Nov-08	519,810	(11,018)	4.2553	2,211,973	8,844	0	(340,817)	4.9113	(1,673,856)		17,688,976	93,967,075	5.3122		
Dec-08	185,315	(3,822)	4.4986	833,663	3,064	0	(2,459,060)	4.7217	(11,610,956)		17,856,951	94,514,036	5.2928		
Jan-09	66,948	(1,712)	6.0150	402,692	2,738	0	(3,793,250)	4.9430	(18,750,004)		15,579,384	83,739,807	5.3750		
Feb-09	1,735	(92)	5.3424	9,269	90	0	(3,595,501)	5.1623	(18,453,148)		11,851,370	65,395,233	5.5179		
Mar-09	1,020,126	(51,983)	4.7778	4,873,964	42,523	0	(1,388,481)	5.1633	(7,166,311)		8,257,512	46,951,444	5.6859		
	14,652,537	(573,690)	3.6650	53,701,255	719,984	0	(14,318,353)	5.3365	(76,409,277)		7,837,174	44,701,620	5.7038		

	Total LNG					Total LNG					Total LNG				
	Injections					Withdrawals					Adjustments				
	Gross DTs	Used/Injected	Price	Commodity	Injection/Charge	W/D Chg/Exp Def	DTs	Price	Amount		DTs	Amount	DTs	Amount	Wid. Cost
	#	#	\$	\$	\$	\$	#	\$	\$		#	\$	#	\$	\$
Beg. Bal.															
Apr-08	622,857	(5,122)	3.7031	2,306,498	4,407	0	(77,745)	6.7209	(522,515)		0	0	1,580,031	13,644,840	8.6358
May-08	722,140	(4,175)	3.4419	2,485,505	4,509	138,952	(24,100)	6.8802	(165,812)		0	0	2,120,021	15,433,230	7.2798
Jun-08	515,670	(4,230)	3.6620	1,888,373	4,568	81,721	(27,012)	6.8899	(186,110)		0	0	2,813,886	17,896,384	6.3600
Jul-08	412,641	(4,371)	3.9006	1,609,539	4,721	269,097	(25,703)	7.0736	(181,812)		0	0	3,298,314	19,684,936	5.9682
Aug-08	544,502	(17,497)	3.3332	1,814,960	9,964	65,583	(19,588)	6.8581	(134,336)		0	0	3,680,881	21,386,481	5.8102
Sep-08	148,030	(282)	2.8607	423,468	305	11,208	(20,403)	6.7240	(137,190)		0	0	4,188,298	23,142,652	5.5256
Oct-08	22,282	(128)	3.8170	85,051	29	202,736	(27,970)	6.7316	(188,283)		0	0	4,315,643	23,440,443	5.4315
Nov-08	0	0	#DIV/0!	0	0	0	(31,171)	6.7176	(209,394)		0	0	4,309,827	23,539,976	5.4619
Dec-08	0	0	#DIV/0!	0	0	26,176	31,405	10.7934	338,966		0	0	4,278,656	23,330,582	5.4528
Jan-09	227,516	(9,889)	5.8281	1,325,976	5,621	50,670	(1,461,620)	4.6572	(6,807,102)		0	0	4,310,061	23,695,724	5.4978
Feb-09	0	0	#DIV/0!	0	0	33,208	(598,589)	4.6822	(2,802,713)		0	0	3,066,068	18,270,889	5.9591
Mar-09	81,396	(2,376)	4.6635	379,592	1,515	12,313	(236,962)	4.8842	(1,157,381)		0	0	2,467,479	15,501,384	6.2823
	3,297,034	(48,070)	3.7364	12,318,962	35,639	891,664	(2,519,458)	4.8239	(12,153,682)		0	0	2,309,537	14,737,423	6.3811

**PIEDMONT NATURAL GAS COMPANY, INC.
RISK MANAGEMENT - HEDGING PROGRAM
GAIN/(LOSS) RECOGNIZED AND OTHER EXPENSES
FOR TWELVE MONTHS ENDED MARCH 31, 2010**

Month	(Gain) or Loss \$	Trading Fees \$	(Gain) or Loss Recognized \$	Interest \$	RMI Fee \$	Real-Time Pricing Fee \$	Net (Gain) or Loss \$	Cumulative (Gain) or Loss \$
<u>Beginning Balance</u>								
Apr-09	2,676,372	0	2,676,372	(1,072)	395	22	2,675,717	31,739,941
May-09	(2,253,841)	1,643	(2,252,198)	(662)	870	21	(2,251,969)	34,415,658
Jun-09	1,711,208	0	1,711,208	(568)	711	21	1,711,372	32,163,689
Jul-09	468,944	1,643	470,587	(443)	791	21	470,956	33,875,061
Aug-09	1,854,499	1,426	1,855,925	(610)	791	21	1,856,127	34,346,017
Sep-09	(2,857,229)	1,054	(2,856,175)	(506)	791	22	(2,855,868)	36,202,144
Oct-09	1,234,334	1,643	1,235,977	(314)	791	22	1,236,476	33,346,276
Nov-09	1,053,413	1,550	1,054,963	(121)	791	22	1,055,655	34,582,752
Dec-09	(1,317,618)	946	(1,316,672)	(86)	791	22	(1,315,945)	35,638,407
Jan-10	514,593	1,473	516,066	(55)	791	24	516,826	34,322,462
Feb-10	466,179	1,442	467,621	(63)	791	24	468,373	34,839,288
Mar-10	1,864,618	2,744	1,867,362	(89)	791	0	1,868,064	35,307,661
	5,415,472	15,564	5,431,036	(4,589)	9,095	242	5,435,784	37,175,725